



The Commonwealth of Massachusetts

**DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY**

D.T.E. 04-112

December 28, 2004

Petition of Nantucket Electric Company for approval of a Cable Surcharge to become effective on January 1, 2005.

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FOR: NANTUCKET ELECTRIC COMPANY
Petitioner

I. INTRODUCTION

On October 10, 1995, the Department of Telecommunications and Energy (“Department”) approved a settlement (“Merger Agreement”) in which New England Electric System acquired Nantucket Electric Company (“Nantucket Electric” or “Company”). New England Electric System/Nantucket Electric Company, D.P.U. 95-67 (1995). Pursuant to the Merger Agreement, Nantucket Electric’s customers pay Massachusetts Electric Company’s rates plus a cable facilities surcharge (“CFS”) calculated annually to recover the cost of underwater cable facilities to serve Nantucket. Id. at 2-3. The Department approved Nantucket Electric’s most recent CFS on December 30, 2003. Nantucket Electric Company, D.T.E. 03-120 (2003).

On November 26, 2004, Nantucket Electric filed its proposed 2005 CFS with the Department to become effective January 1, 2005. Pursuant to notice duly issued, the Department conducted a public hearing on this matter on December 20, 2004. The record consists of two exhibits:¹ (1) Nantucket Electric’s CFS filing consisting of the testimony and exhibits of William J. Goguen, coordinator of regulatory support for National Grid USA Service Company, Inc.² (“National Grid Service”), and Scott M. McCabe, senior analyst of

¹ At the conclusion of the public hearing, the Department allowed Nantucket Electric’s motion to admit into evidence its prefiled testimony and exhibits and its responses to the Department’s information requests.

² In March of 2000, National Grid Group plc, a holding company, acquired New England Electric System, and organized National Grid USA, a wholly-owned subsidiary. See Niagara Mohawk Holdings, Inc., Order Authorizing Merger (continued...)

distribution regulatory services for National Grid Service, (Exh. NEC-1); and (2) Nantucket Electric's response to the Department's First Set of Information Requests (Exh. DTE 1-1).

II. THE CFS

A. Description

According to Nantucket Electric, its proposed 2005 CFS is designed to both recover the identified revenue requirement and to avoid significant swings in rates (Exh. NEC-1, at 29-30, 32-33). Nantucket Electric calculates its CFS based on annual projected costs and projected kilowatt hour ("KWH") sales that are reconciled to actual figures in the next annual CFS filing (Exh. NEC-1, at 6-7, 30). The Company projects its 2005 cable facilities cost of service to be \$2,413,547 (Exh. NEC-1, at 5, 13, 15, 29). Its 2005 estimated cost of service for its cable facilities is composed of: (1) return and taxes on rate base; (2) depreciation expense; (3) amortization of financing costs; and (4) a credit for fiber optic rental revenues (Exh. NEC-1, at 6).

Nantucket Electric's 2005 CFS net revenue requirement is \$2,337,234 (Exh. NEC-1, at 5, 13). This revenue requirement consists of the estimated cost of service (\$2,413,547), a preliminary reconciliation of the 2004 CFS (an over-collection of \$60,285), and the final reconciliation of the 2003 CFS (an over-collection of \$16,028) (Exh. NEC-1, at 5, 13, 30). The preliminary reconciliation of the 2004 CFS is based upon actual costs through September

²(...continued)

and Granting Waivers, Authorizations, and Declaratory Order in Part, 95 FERC ¶ 61,381 at 2 (2001).

2004, actual revenues through October 2004, and forecast costs and revenues for the remaining months of 2004 (Exh. NEC-1, at 5, 30-31, 39). Specifically, the 2004 preliminary over-collection of \$60,285 results from taking the revised projected 2004 cost of service of \$2,511,052, less the estimated over-collection for 2003 of \$259,765, plus the final 2002 under-collection of \$3,144, and reconciling it with the actual/forecast CFS revenue of \$2,314,716 (Exh. NEC-1, at 8, 13, 30-31, 39). The final reconciliation of the 2003 CFS results in an over-collection of \$16,028 by subtracting the estimate of the 2003 over-collection included in the 2004 cable surcharge calculation (\$259,765) from the actual 2003 over-collection of the cable surcharge (\$275,793) (Exh. NEC-1, at 9, 13, 31, 40).

Nantucket Electric proposes to allocate the 2005 revenue requirement to each of its rate classes based on the amount of revenue each rate class has contributed during 2004 (Exh. NEC-1, at 32).³ According to the Company, allocating the CFS in this way ensures equity among rate classes, avoids the rate shock that might result from an alternative allocation, and insulates customers from significant swings in average rates (Exh. NEC-1, at Nantucket Cable Surcharge, 2004 D.T.E. 04-112 33). Nantucket Electric also proposes to continue the seasonal (summer/winter) CFS rates to maintain consistency with its historic rate structure (Exh. NEC-1, at 33-34).

³ Nantucket Electric's method for allocating its 2005 revenue requirement will result in a varying CFS charge for each rate class. Each CFS is noted on Table 1, attached to this Order.

B. Analysis and Findings

Pursuant to the Merger Agreement, in reviewing the CFS, “the Department will assess, among other things, whether the surcharge comports with the Department’s other requirements regarding rates and rate design.” New England Electric System/Nantucket Electric Company, D.P.U. 95-67, at 20. Having reviewed the components of Nantucket Electric’s 2005 CFS revenue requirement, the Department finds that the Company’s methods of calculating and allocating the 2005 CFS revenue requirements are consistent with the Department’s rate design requirements and with D.P.U. 95-67. Accordingly, the Department approves the 2005 CFS proposed by Nantucket Electric as indicated by Table 1, attached to this Order.

III. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That Nantucket Electric Company shall implement the twelve-month 2005 cable facilities surcharge rates as indicated in Table 1, attached to this Order. These cable facilities surcharge rates shall go into effect January 1, 2005.

FURTHER ORDERED: That Nantucket Electric Company comply with any and all other directives contained in this Order.

By Order of the Department,

_____/s/_____
Paul G. Afonso, Chairman

_____/s/_____
W. Robert Keating, Commissioner

_____/s/_____
Eugene J. Sullivan, Jr., Commissioner

_____/s/_____
Deirdre K. Manning, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.